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By Michael Penn

In February 2000, Japan began the new century on a sour note when it lost its rights to the Khafji oil field in the Saudi-Kuwaiti neutral zone. Japan's Arabian Oil Company had held exploration rights in that zone since 1957, and the loss of such a long-term investment was keenly felt.

The problem was that Japan, which is among the world's most dependent countries on Arab and Iranian oil, had lost all significant presence in the upstream oil market. With the increasing rivalry for energy resources between Japan and China, as well as other countries, Japanese government and business leaders are making a strong effort to gain a toehold in the region.

Most significant has been the Inpex Corporation's agreement in February 2004 to develop the massive Azadegan oil field in Iran. However, this deal has faced increasing political pressures as U.S.-Iranian relations continue to spiral downwards and Iran faces possible UN sanctions for its nuclear power program. In addition to the Azadegan deal, there have been less-controversial agreements in recent months between Japanese companies and governments like Egypt, Sudan, and Iraq.

However, the most dramatic event involves Libya. This essay reveals the steps that led to this unforeseen event.

On October 2nd, the results of the second round of international bidding for exploration and development rights in twenty-six Libyan oil zones were announced. More than sixty oil companies from around the world participated in a fiercely competitive environment. Libya is the world's number nine country in terms of estimated oil reserves, and many of its rich oil fields remain undeveloped. The results surprised many observers: Japanese companies captured rights to six of the most promising oil zones. As one official told Reuters: "It was quite a tight race. Last night, it was cut-throat competition… The Japanese were the big winners."

But how is it that Japan could beat out all of the majors and other national companies to attain such an impressive share of the spoils?

In the first round of bidding in January, Japanese efforts failed dismally. At that time, fifteen zones were available and eleven of them went to American companies. All Japanese bids were rejected. Some Japanese business leaders were shocked at these results as they had anticipated some degree of success. In the wake of the Japanese companies' failure in January, they re-examined their approach and found new ways forward.

In the January round the Japanese oil companies tended to work separately and offered independent bids. It is thought that by thus spreading themselves so thinly, they gave Libyan officials the impression that the financial resources behind each bid were rather small, posing the that undercapitalized companies, if given the development rights, would be unable to produce results.

Also, the Japanese companies conveyed the impression that they were only interested in business deals and had no real long-term commitment to the prosperity of Libyan society. This was not conducive to creating an atmosphere of trust.

However, in 2005, the Japanese companies revised their strategies and found new approaches that worked much more effectively. Rather than operate independently, this time the Japanese organized group bids. Some of these partners were other Japanese companies and some of them were European companies that also failed in the first round. This gave the Japanese bids added strength.

Japanese oil companies also did a better job of assuring the Libyans that they were interested in more than just oil, and were committed to Libya's long-term development and prosperity. An early milestone in this campaign was the March visit of a group of Japanese oil executives headed by former Foreign Minister Kakizawa Koji. Kakizawa is noted for having championed Japanese business relations with Libya even before the UN sanctions were lifted in 2003. Meeting with senior Libyan officials in Tripoli, this delegation began the process of putting Japan-Libya relations back on track. This group met with Saif al-Islam Qadhafi, the leader's second son and possible successor.

On April 3, Saif al-Islam Qadhafi came on a six-day visit to Japan. The young Qadhafi met privately with Prime Minister Koizumi Junichiro, Finance Minister Tanigaki Sadakazu, METI Minister Nakagawa Shoichi, Communications Minister Aso Taro, Education Minister Nakayama Nariaki, and House Speaker Kono Yohei.

On April 5, Saif al-Islam Qadhafi opened an art exhibition in Tokyo called "The Desert Is Not Silent," which included both archaeological artifacts from Libya and the young Qadhafi's own paintings. Present at this opening were Prince Mikasa Tomohito, Former Prime Minister Mori Yoshiro (who is involved in Japan-Africa relations), and Environment Minister Koike Yuriko (a fluent speaker of Arabic).

Finally, the young Qadhafi also participated in the Aichi Expo where Libya had set up a national pavilion that was drawing 12,000 visitors daily. The national day events were held on April 6th.

The Japanese oil companies were involved in some of this diplomacy. For example, "The Desert Is Not Silent" exhibition, which was held in Akasaka, was 75% financed by contributions from these oil companies. Despite the young Qadhafi's busy schedule, the oil companies also had some face time booked with the young leader. While Qadhafi holds no official position in the Libyan government, the importance of reaching understandings with this young man were widely recognized.

The first official high-level exchange soon followed. In June, Senior Vice-Foreign Minister Aisawa Ichiro traveled to Tripoli and met with Libyan leader Muammar Qadhafi. Aisawa carried with him an invitation from Prime Minister Koizumi for the elder Qadhafi to visit Japan some time in the future.

All of these efforts formed the backdrop to the startling Japanese success on October 2nd. The oil development rights gained in Libya were shared by five Japanese companies: Inpex Corporation, Japan Petroleum Exploration Company, Mitsubishi Corporation, Nippon Oil Corporation, and Teikoku Oil. For some of these companies, this was their first successful oil bid in the Arab world. If all goes well, actual oil production at these sites should begin in 2011 or 2012.

With the rise in oil prices and a competitive business environment for oil companies globally, the Japanese success in Libya is an impressive feat. It allows both Japan and Libya to diversify their range of business partners. It was also a success born of failure. This time, Japan got it right.

Notes:

1. Precise information on the zones won by Japanese companies in the second round is below. The zone won by Inpex is shared with the French oil company Total.

Zone 2 - 1/2 (Offshore) Nippon Oil Corporation (90%: Operator)
Mitsubishi Corporation (10%)

Zone 40 - 3/4 (Offshore) Japan Petroleum Exploration Company (42%: Operator)
Nippon Oil Corporation (38%)
Mitsubishi Corporation (20%)

Zone 42 - 2,4 (Northeast) Total (60%: Operator)
Inpex Corporation (40%)

Zone 81 - 2 (West) Teikoku Oil (73%: Operator)
Mitsubishi Corporation (27%)

Zone 82 - 3 (West) Teikoku Oil (73%: Operator)
Mitsubishi Corporation (27%)

Zone 176 - 4 (Southwest) Japan Petroleum Exploration Company (100%: Operator)

2. The Nihon Keizai Shinbun of October 4th offered a convenient summary of current Japanese oil projects in the Persian Gulf and North Africa; here combined with information from other sources:

Libya: Six Zones shared by Inpex Corporation, Japan Petroleum Exploration Company, Mitsubishi Corporation, Nippon Oil Corporation, and Teikoku Oil.

Egypt: Four Zones of which two are held by the Arabian Oil Company and two by Teikoku Oil.

Iran: Rights to the massive Azadegan oil field held by Inpex Corporation.

Algeria: One zone held by Teikoku Oil.

Sudan: One zone held by the NGO Systems International Group.

Iraq: Japan Petroleum Exploration Company and the Arabian Oil Company have signed technical cooperation agreements with the Oil Ministry.

3. Website of the “Desert Is Not Silent” art exhibition, including the Tokyo visit of Saif al-Islam Qadhafi.

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